Trafigura Ltd

Trafigura focuses on securitising its inventory of metals and oil

Special purpose vehicle will secure term financing for trading activities

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Trafigura, one of the world's biggest commodity merchants, plans to securitise its stocks of refined metals and crude oil to help raise cash for trading, as tougher regulations raise the cost of financing.

The Singapore-based company has created a special purpose vehicle called Trafigura Commodities Financing, which has raised $470m by selling senior variable funding notes to six banks, including Natixis, Bank of Tokyo-Mitsubishi UFJ and Westpac.

The proceeds of the notes, as well as a subordinated loan from Trafigura, will be used to buy crude oil and refined metal inventories from Trafigura. TCF will then sell these commodities back to Trafigura at a preset expiry date or earlier if the trader exercises an option.

The move comes as capital charges for banks involved in trade financing are increasing under Basel III regulations, leading commodity houses to look for new ways to raise cash. The robust recovery in commodity prices is also increasing the amount of financing that global commodity traders require for day-to-day operations after expanding in recent years.

"The global commodities industry has been searching for a highly rated capital-markets solution to supplement the financing provided by banks," said Chris McGarry, a White & Case lawyer who advised on the deal.

Jean-Francois Lambert, founding partner at consultancy Lambert Commodities and former head of commodity trade finance at HSBC, said the idea of monetising inventories made absolute sense when commodity prices were rising.

Access to credit is the lifeblood of commodity trading, an industry where margins are razor thin. As prices recover from a brutal downturn, it means the cost of loading a tanker with crude, for example, has risen sharply, placing stress on existing bank lines and credit facilities.

"The requirements for commodity finance compared to one-and-a-half years ago are significantly higher for the same volumes," said Mr Lambert.

The structure of the deal is similar to a repurchase agreement, or repo, which is one of the most commonly used tools in commodity trade financing. In such deals, a trader sells raw materials to a bank for cash with an agreement to buy them back at a later date usually at a higher price.

Laurent Christophe, Trafigura's head of corporate finance, said the new structure addressed many of the risks related to inventory-backed financing such as liquidity, theft of goods and storage control.

A collateral agent would verify each sale and there would be physical verification of the entire portfolio by independent inspectors, he said. Trafigura has been active in the asset-backed securities market for more than a decade, bundling receivables — such as unsettled transactions or monies owed to the company — rather than inventories.

"This platform enables Trafigura to become a systematic issuer of notes backed by commodity inventories, and ultimately to seek committed term financing in the asset-backed securities markets," said Mr Christophe.

The repo market has been rocked by a series of scandals in recent years involving stocks of metal being pledged several times to different banks, making alternative structures attractive.

Australia's ANZ Bank warned in June that its commodities business had suffered "substantial losses" because it allegedly received fake receipts for metal in warehouses belonging to a Glencore subsidiary.

"Our ambition with TCF was to replicate for inventories what we have successfully achieved for trade receivables," said Mr Christophe. "The process of establishing TCF has been a long journey."